

From: David Jones and Jerry Stein, Office of the City Auditor
To: David Broustis, SPU Resource Conservation
Date: July 3, 2001

RE: Toilet Round-Up program

First, we'd like to express our gratitude for your asking us for internal control advice regarding this worthy program. We would rather play a proactive role than a reactive one.

Second, we appreciate all the effort you and those working with you have made to design a good program and to incorporate our suggestions.

Third, we want to make it clear that we understand that controls have costs, and that every decision regarding controls is a cost-benefit decision that program managers must make. Our role is to apply our knowledge and experience of controls and control failures to programs, and to think of ways that a particular program might be abused by consumers or employees, and of ways to protect employees and pinpoint problems if they occur. We try to envision every possible scenario that could occur, even the most unlikely ones. Believe it or not, we actually enjoy that process! Then we bring those possible problems to the attention of program managers to aid them in making internal control decisions. But that doesn't mean we believe they all have to be controlled, regardless of cost.

With that in mind, we conferred yesterday with our colleague Linneth Riley-Hall, and with City Auditor Susan Cohen. Here are some of our thoughts regarding some of the control aspects of the toilet rebate program that we discussed last week:

- As we noted last week, the requirement of bringing in a toilet is the best control. It virtually limits external frauds to people who have access to unusual quantities of old toilets. Thus, the most likely fraud scenario we can envision is this: A dishonest plumber issues phony toilet purchase/installation invoices to friends, then has the friends bring in the old toilets and phony invoices. Or a non-plumber with access to old toilets creates phony plumbing business invoices on a computer. We were not able to think of any reasonable way to prevent these frauds. The limit of five toilets per person is the only factor to discourage this type of fraud. (The original limit of two toilets would have been more effective in this regard.)
- Keep in mind that when you issue vouchers, your best control – the toilet requirement – is lost unless you establish sufficient controls to make sure that no one can get a voucher except by handing over a toilet. Granted, anyone with “unearned” or phony vouchers would have to come up with a corresponding number of receipts, but as we noted above, it would probably not be difficult to create acceptable phony invoices or receipts. Also, we anticipate that you will accept receipt *copies* submitted with vouchers. This brings up several things to consider regarding vouchers:
 - Vouchers should be pre-numbered to prevent use of photocopies.
 - Are you planning to issue one voucher for each toilet, or one voucher per customer (writing the number of toilets submitted on the voucher)? If issuing one voucher per customer, you may want to keep a log to record the number of toilets each voucher was issued for, and check against the log when the voucher is received. Either way, it would be best if two employees verified that the number of vouchers issued or toilets recorded on each voucher matches the number of toilets submitted. Based on our understanding

of your physical setup, if you use the one voucher per customer system, it seems like the check writer would probably record the number of toilets on the voucher and the booth assistant would verify the check writer's figure. Using the one voucher per toilet method, the check writer would hand the booth assistant the proper number of vouchers, and the assistant would verify the quantity.

- Issuing pre-numbered vouchers to consumers who have neither an original receipt nor a copy seems to be a reasonable way to handle that situation. In the case of consumers who cannot "prove" their installation address, though, simply asking the consumer where the toilet was installed, and relying on his or her word, has the advantage of avoiding these potential weaknesses of vouchers. When you also consider other factors -- the service area covers most of this region, the difference between in- and out-service area is only \$20 per toilet, it may be difficult and/or frustrating for some consumers to submit adequate proof of address, issuing vouchers will take a little extra time, etc., -- it might be better to take the consumer's word on the installation address.
- Any method of clearly marking the relevant transactions on the consumer's receipt will be fine, so long as it will prevent anyone from using of the receipt (or a copy) to obtain additional rebates.
- We concluded that there are three ways to address authenticity issues regarding receipts: 1) keep original receipts, 2) make copies of original receipts, or 3) record on a receipt data form the eligibility details and other unique information from the original receipt -- i.e., invoice number, purchase date, toilet type(s), etc. Ideally, a second employee would confirm that information, and both employees would sign (initial) the form... Of course, a fourth option is to assume the risks of not having this type of control in place. *Collecting this authenticity evidence for your records has more to do with detecting fraud after-the-fact, satisfying audit-type reviews, and protecting innocent employees in the event that anything goes wrong than with preventing consumer fraud.*

Since one of your primary concerns is with the difficulties of copying receipts on site, we developed a possible control system that combines options 1 and 3 to eliminate the need for copies. In this scenario, you would ask the consumer if you may keep the original receipt. If yes, mark the relevant transactions on the receipt and include the receipt with the consumer's form and the approval form and complete the rebate process. If no, an employee would record information from the receipt on a "receipt data form" designed for that purpose (option 3). This could be done by the booth assistant, or it could be handled at a separate queue or table. If done by the booth assistant, the check writer would, ideally, confirm the information from the receipt and initial the form. The appropriate employee would mark the relevant transactions on the receipt before returning it to the consumer... Using a separate queue or table for this process would inconvenience the consumer in question but not delay those who are willing to part with their receipts.

- Accepting copies as if they were original receipts could allow a consumer who has access to old toilets to collect up to five rebates per trip with only a single purchase. But it seems unlikely that someone clever enough to go to that much trouble would not be clever enough to design fake receipts/invoices instead of copying the same one many times over. So we devised a control -- and an alternative:
- Control: If a consumer only brings a receipt copy, you could direct him or her to a "trouble table" (or a trouble queue if you want to keep them in their vehicles). There, an employee could record a unique figure from the receipt copy -- e.g., the invoice number

or total receipt amount. Each time a copied receipt came in, the trouble table employee could quickly review the list to see if that key figure matches one that has already been recorded. If so, the employee would then check the previously received copies to determine whether another copy of the same original has already been received, or the figures matched by (extraordinary) coincidence. If everything looked fine, the employee would mark the relevant transactions on the receipt copy as if it were an original, and include the marked copy with the other rebate documentation.... (Having more than two trouble table staffers might make it difficult for them to share the list of unique receipt figures.)

- Alternative: Assume the risk of this scenario at the first event. Treat copies as if they were originals, then review them all after the event. (Create a spreadsheet, database, etc., list of invoice numbers or receipt totals from all receipt copies, originals, and receipt data forms; sort the list to identify duplicates; then compare the corresponding documents.) If you conclude that this fraud occurred at the first event, you may want to implement option #1 (or a similar control) at subsequent events.

Again, we want to emphasize that internal control decisions are management decisions, and that we understand that internal control costs may exceed their benefits, at least for any given instance. Managers must attempt to find the optimal balance between the costs and benefits of internal controls. Unfortunately it is the nature of the internal control business that you never know when you've found that optimal balance – you only find out when you miss it.

We wish you the best of luck with this rebate program.